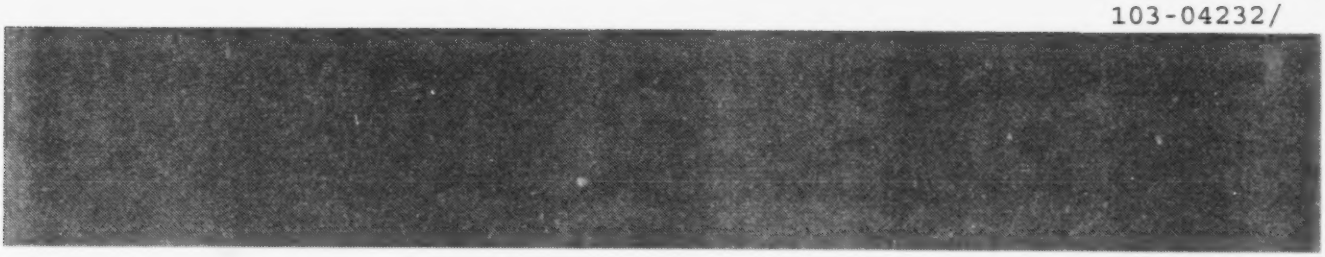
SaskTel

Consolidated Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS INTERNATIONAL INC.

December 31, 2002

103-04232/



president's message

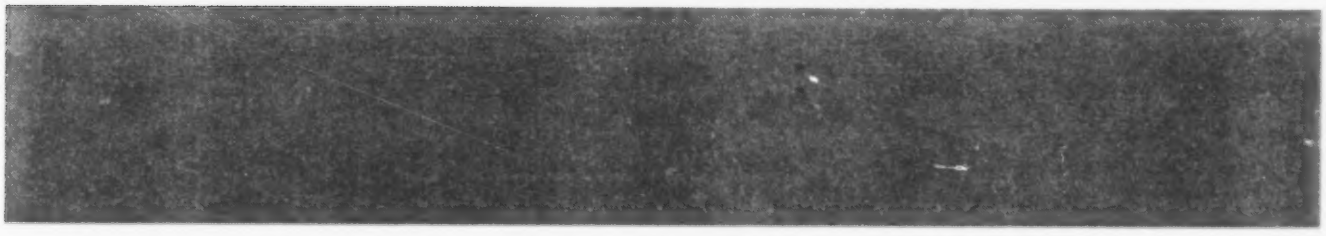
Saskatchewan Telecommunications International, Inc. (SaskTel International) is incorporated under the laws of the Province of Saskatchewan. As a wholly owned subsidiary of the Saskatchewan Telecommunications Holding Corporation (SaskTel) and with its Head office in Regina, it has a mandate to pursue telecommunications related business opportunities worldwide.

Since 1986, SaskTel International has been marketing SaskTel's technological and software solutions expertise to customers around the world. Advanced technologies that were developed to serve the people of Saskatchewan, especially in fiber optics, digital switching and software systems, have opened the doors to international markets. Today SaskTel International, either independently or in partnership with other firms, helps its customers in countries around the world develop, improve and expand their telecommunications systems. SaskTel International's unique relationship with SaskTel, a successful independent operating telecommunications company that is not affiliated with any specific equipment vendor, allows it to search the global marketplace and offer unbiased solutions to its customers.

In addition to providing technological and software solutions to customers throughout the world, SaskTel International has, in recent years, brought successful investment opportunities to SaskTel. SaskTel International was instrumental to SaskTel investing in LCL Cable Communications Limited in England and, more recently, Saturn Communications Inc. in New Zealand. Combined, the sale of these investments was responsible for generating a net profit for SaskTel and the Province of Saskatchewan of more than $100 million.

In its own right SaskTel International has been profitable for eleven consecutive years. Net income for 2002 exceeded $1 million, bringing total operating profits exclusive of investment gains since 1986 to more than $18 million. Total revenues for that same time period exceeded $200 million. SaskTel International's success in 2002 can be attributed to securing a sale of its *MARTENS*® Suite of telecommunications software products, the successful completion of the Tanzania Railway Project in Tanzania and managing its cost structure in light of the recent downturn in the telecommunications industry worldwide.

The year 2003 will see SaskTel International operate in a continued difficult telecommunications environment; however, it will continue to position itself strategically to ensure it secures projects when markets show signs of growth once again.



2002 SaskTel International Highlights

Network Division

During 2002 SaskTel International's Network Division successfully concluded the $8 million Tanzania Railway Corporation (TRC) contract, installing 264 kilometers of fiber optic cabling along the railway track between Morogoro and Dodoma, two major centres in Tanzania. Mr. Linford Mboma, Director General of TRC, made a visit to SaskTel International in Regina to personally express his company's appreciation for the outstanding work SaskTel International accomplished on this project.

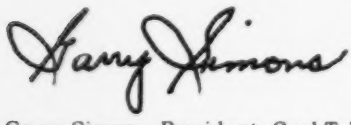
In 2002, Networks signed a Canadian International Development Agency (CIDA) funded contract, in partnership with IBM Canada, to complete a rural telephony build in the state of Madhya Pradesh, India. The total value of the contract is $6.9 million and the project will be completed in 2003.

Software Division

In late 2002, the Software Division sold its *MARTENS* product to TDS Telecom, a leading telecommunications company located in Madison, Wisconsin. Overall, the *MARTENS* product is now operating in eleven telecommunications companies throughout North America and managing in excess of six million local access lines for our customers. Software revenues for SaskTel International in 2002 exceeded $10 million, its best year ever. More than 50 people are employed in the development, support and sales of the *MARTENS* Suite of products.

Investment Division

In keeping with SaskTel's investment successes in New Zealand and the United Kingdom, the Investment Division pursued a broadband network opportunity in the Hunter Valley region of New South Wales, Australia. While substantial progress was achieved in securing regulatory and planning approvals within Australia, completing a fully developed business plan, marketing plan and financial model, SaskTel International will not pursue this opportunity further until capital markets improve and a partner can be secured.



Garry Simons, President, SaskTel International

KPMG LLP
Chartered Accountants
2000 - 1881 Scarth Street
Regina SK S4P 4K9

Telephone (306) 791-1200
Telefax (306) 757-4703
www.kpmg.ca

AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications International, Inc. as at December 31, 2002 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for December 31, 2001 were reported on by another firm of chartered accountants.

KPMG LLP
Chartered Accountants

Regina, Canada
January 14, 2003

KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International, a Swiss nonoperating association.

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31 (Thousands of dollars)	**2002**	2001
Sales and consulting revenue	**$ 11,371**	$ 17,979
Direct expenses	**7,214**	13,032
Gross profit	**4,157**	4,947
Operating expenses	**3,537**	4,323
Operating income	**620**	624
Other items	**394**	302
Net income	**$ 1,014**	$ 926

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31 (Thousands of dollars)	**2002**	2001
Retained earnings, beginning of year	**$ 7,558**	$ 7,466
Net income	**1,014**	926
	8,572	8,392
Dividends	**913**	834
Retained earnings, end of year	**$ 7,659**	$ 7,558

See Accompanying Notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (Thousands of dollars)	**2002**	2001
Assets		
Current assets		
Cash and short-term investments (Note 3)	**$ 8,856**	$ 5,485
Accounts receivable	**2,356**	1,844
Work in process	**11**	801
	11,223	8,130
Due from SaskTel Holding (New Zealand) Inc.	**-**	1,967
Property, plant and equipment (Note 4)	**320**	343
	$ 11,543	$ 10,440
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable	**$ 1,676**	$ 1,882
Unearned revenue	**295**	-
Dividend payable	**913**	-
	2,884	1,882
Shareholder's equity		
Share capital		
Authorized-unlimited number of class A common shares		
Issued - 1,000,000 shares	**1,000**	1,000
Retained earnings	**7,659**	7,558
	8,659	8,558
	$ 11,543	$ 10,440

See Accompanying Notes

On behalf of the Board

Garry Simons

R Stephanson

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (Thousands of dollars)	**2002**	2001
Cash provided by (used in):		
Operating activities		
Net income	**$ 1,014**	$ 926
Items not affecting cash from operations (Note 5)	**62**	106
Net change in non-cash working capital items (Note 6)	**2,334**	402
	3,410	1,434
Financing activities		
Dividends	**-**	(1,424)
	-	(1,424)
Investing activities		
Property, plant and equipment expenditures	**(39)**	(72)
	(39)	(72)
Increase (decrease) in cash	**3,371**	(62)
Cash and cash equivalents, beginning of year	**5,485**	5,547
Cash and cash equivalents, end of year	**$ 8,856**	$ 5,485
Comprised of:		
Cash	**$ 11**	$ 174
Short-term investments	**8,845**	5,311
	$ 8,856	$ 5,485

See Accompanying Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 -- The Corporation

Saskatchewan Telecommunications International, Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan. The Corporation is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) with the mandate of pursuing core telecommunications business opportunities worldwide.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 -- Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The most significant policies are outlined below.

Consolidation
The consolidated financial statements include the accounts of the Corporation and its subsidiaries, SaskTel International Consulting, Inc. and Saskatchewan Telecommunications International (Tanzania) Limited. All significant intercompany transactions and balances have been eliminated.

Cash and short-term investments
Cash and short-term investments include investments in money market instruments, which are purchased with maturity dates of less than 90 days. Short term investments are stated at cost which approximates market value.

Revenue recognition
Operating revenues from the sale of software, equipment and consulting services are recognized at the point of sale or when services are performed. For longer term consulting contracts, the percentage of completion method is used.

Work in process
Work in process is valued at the lower of cost and net realizable value.

Property, plant and equipment
Office furniture and equipment is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the useful life of the asset.

Foreign currency translation
Monetary assets expressed in foreign currencies are recorded in Canadian dollars at the foreign exchange rate prevailing at year-end. Foreign exchange gains and losses arising on translation are charged to income or expense in the current year.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 -- Short-term investments

The balance consists of funds invested with Holdco at an average current market interest rate of 2.53% (2001 – 4.19%).

Note 4 -- Property, plant and equipment

Asset	Useful life
Office furniture and equipment	4 - 17 years

	Cost	Accumulated depreciation and amortization	Net book value	
			2002	2001
			(Thousands of dollars)	
Office furniture and equipment	**$ 539**	**$ 219**	**$ 320**	$ 343

Note 5 -- Items not affecting cash from operations

	2002	2001
	(Thousands of dollars)	
Depreciation and amortization	**$ 62**	$ 106

Note 6 -- Net change in non-cash working capital items

	2002	2001
	(Thousands of dollars)	
Accounts receivable	**$ (512)**	$ 1,252
Work in process	**790**	668
Due from SaskTel Holding (New Zealand) Inc.	**1,967**	-
Accounts payable	**(206)**	(531)
Unearned revenue	**295**	(987)
	$ 2,334	$ 402

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 -- Financial instruments

Currency exposure

The Corporation's primary business is international telecommunications consulting, through contracts, which entails exposure to foreign exchange risk. The Corporation's foreign exchange risk relates primarily to the risk that the market value of accounts receivable and the associated revenues, and accounts payable and the associated expenses will fluctuate due to changes in exchange rates. A portion of the Corporation's accounts receivable and accounts payable are denominated in US dollars, euros, Australian dollars and Tanzania schillings. The Corporation uses a combination of derivative financial instruments to manage foreign exchange risk exposures. At December 31, 2002, the Corporation did not have any outstanding derivative financial instruments.

Credit risk

The Corporation is exposed to credit risk relating to accounts receivable balances from international contracts. The accounts receivable balances are primarily from large telecommunications companies or international government development agencies.

Fair value

The carrying amounts of cash, short-term investments, accounts receivable, accounts payable, and dividend payable approximate fair value due to the short-term nature of these instruments.

Note 8 -- Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2002	2001
	(Thousands of dollars)	
Sales and consulting revenue	**$ 1,426**	$ 1,605
Direct and operating expenses	**1,037**	1,639
Short-term investments	**8,845**	5,311
Accounts payable	**498**	455

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Note 9 -- Comparative figures

2001 figures have been reclassified to conform to current year's presentation.